

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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July 30, 2008

Mr. Nicholas Baldo, Finance Manager III
Monterey County
Department of Public Works
168 W. Alisal Street, 2nd Floor
Salinas, CA 93901-2680

Re: Monterey County, Department of Public Works
Audit of Indirect Cost Rate Proposal for Fiscal Year 2009
File No. P1190-0691

Dear Mr. Baldo:

We have audited the Monterey County, Department of Public Works' (County) Indirect Cost Rate Proposal (ICRP) for the fiscal year ended June 30, 2009 to determine whether the ICRP was presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The County management is responsible for the fair presentation of the ICRP. The County proposed an indirect cost rate of 31.83% of total direct salaries and wages plus fringe benefits for fiscal year ending June 30, 2009.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the County. Therefore, we did not audit and are not expressing an opinion on the County's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the County, as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the County in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of the County's single audit report for the fiscal year ended June 30, 2007, inquiries of the County's personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2007 and prior audit work completed on February 2007. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation were communicated to Nick Baldo, Financial Manager of the County, on June 27, 2008. Our finding, the County's response, and our analyses are documented below.

AUDIT RESULTS

Based on audit work performed, the County's ICRP for the fiscal year ended June 30, 2009 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 31.83% of total direct salaries and wages, plus fringe benefits. The approval for fiscal year ended June 30, 2009 is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Finding 1

The independent auditor for Monterey County, Department of Public Works (County), in the Management Letter for FYE June 30, 2007, indicated that the Auditor-Controller's office is responsible for maintaining personnel records as well as handling payroll functions. This issue was first reported in the independent auditors' Management Letter for FYE June 30, 2004. This issue remains unresolved as of the date of this report.

Recommendation

The functions of personnel and payroll should be separated by transferring the duties of the personnel functions to the Human Resources Department.

Auditee's Response

This issue will be addressed with the implementation of the "new" ERP system.

Analysis of Response

The County concurred with our finding. The County's response does not change the status of our finding and recommendation.

This report is intended solely for the information of the County, Department Management, the California Transportation Commission (CTC) and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposal for your files. Copies were sent to the Department's District 5, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Amada Maenpaa, Audit Supervisor, at (916) 323-7868.



MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting
Mike Giuliano, District 5
P1190-0691

**Monterey County Public Works
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Monterey County Public Works and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rates</u>	<u>Applicable To</u>
Fixed with carry forward	7/1/08 to 6/30/09	31.83%	All Programs

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds *are* available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization *and* are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) the estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

FY 2009 Estimated Indirect Costs	\$3,007,288
Carry Forward from FY 2007	<\$ 426,061>
Estimated FY 2008 Indirect Costs	\$2,581,227
FY 2008 Estimated Direct Salaries and Wages plus fringe Benefits	\$8,109,854
FY 2008 Indirect Cost Rate	31.83%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

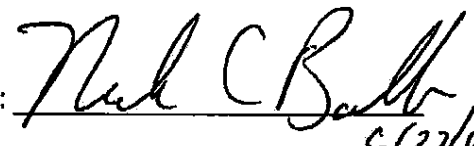
(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the *agreements* to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Monterey County Public Works

Signature: 
6/27/08

Signature: 
6/27/08

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Nicholas C. Baldo

Name of Official: Nicholas C. Baldo

Title: Finance Manager III

Title: Finance Manager III

Date of Execution: April 1, 2008 _____

Phone: (831) 755-4800

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.



Signature


Reviewed and Approved by:

(Name of Audit Manager) Mary Ann Campbell-Smith

Title: Chief External Audits

Date:

Phone Number: (916) 323-7105



Signature

Reviewed and Approved by:

(Name of auditor) Deborah Gay

Title: Auditor

Date: 6/27/08

Phone Number: (916) 323-7868

ask for Amanda Mueppa